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BILL ANALYSIS

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House Bill 4135 (Substitute S-1 as reported)
Sponsor: Representative Frank Foster
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the General Property Tax Act to limit a requirement that a bank or other lending institution pay what it otherwise would have paid in school operating taxes if it retains the principal residence exemption on foreclosed property. Under the bill, this would apply to property acquired by foreclosure or forfeiture in 2012, 2013, or 2014. The bill also would delete a provision that allows the property to be leased to the former homeowner.

Under the Act, a principal residence is not subject to local school operating taxes. When a mortgage on the home is foreclosed, the principal residence exemption (PRE) must be rescinded. The foreclosing bank, credit union, other lending institution, or land contract vendor, however, may retain the PRE for up to three years. If it does so, that party must pay an amount equal to what it would have paid in school operating taxes if the PRE had not been retained, as well as an administration fee.

The bill provides that, if a land contract vendor, bank, credit union, or other lending institution acquired ownership in 2012, 2013, or 2014 only as a result of a foreclosure or forfeiture of a recorded instrument, or through deed or conveyance in lieu of a foreclosure or forfeiture on that property, the land contract vendor, bank, credit union, or other lending institution would have to pay an amount equal to what it would have had to pay in local school operating taxes if the exemption had not been retained, plus an administration fee.

MCL 211.7cc

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce State School Aid Fund revenue by an unknown amount. The actual decrease would depend on the number of properties affected, as well as their specific characteristics. Revenue would decline because foreclosing institutions would no longer need to pay an amount equivalent to the local school operating levies for properties that were acquired through foreclosure if they were acquired before 2012 or after 2015, and the School Aid Fund would no longer receive this revenue.

While 52,853 foreclosures were recorded during 2013, available data suggest there were 43,262 foreclosed homes for sale in February 2014, with a median foreclosure sales price of $50,000 per home. It is unknown how many of those homes would be affected by the bill's changes, because homes for sale could have gone through foreclosure years ago and many recently foreclosed homes might not yet be on the market. If all of those 43,262 foreclosed homes for sale were affected by the bill, it would reduce School Aid Fund revenue by approximately $20.0 million per year.

Date Completed: 5-7-14

Fiscal Analyst: David Zin